

NSC DRAFFING

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ICELAND

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I. Fairly complete Icelandic election returns show:

- A. No absolute majority (27 needed) for any one party or for the election alliance of Progressives and Social Democrats, who ran together in opposition to Conservatives.
- B. A 5% gain in popular vote for the Conservatives, despite the opposition's exploitation of the Keflavik NATO Base issue in the election (despite this gain, Conservatives dropped from 21 to 19).

II. Previous Icelandic government was a coalition of Conservatives and Progressives. If reconstitution of this coalition proves impossible, Progressives and Social Democrats may attempt formation of a minority Government (their combined total of 25 seats is 2 short of absolute).

- A. No matter how formed, the next Government is committed to seek revisions of the 1951 defense agreement with the US (talks are to start 1 August).
- B. However, the Progressives are now hinting at a moderation of their strong anti-Base stand (they might now be satisfied by something less than total withdrawal of US forces (from Keflavik).

III. Actually, Iceland's most serious present problem is not Keflavik, but its economy--inflation is pricing Icelandic fish products (90% of exports) out of Free World markets.

- A. Result has been increasing dependence on barter trade with the bloc (examples: some 70% of petroleum imports, 75% of coal).

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